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MIDDLE EAST – AFRICA – SOUTH ASIA

This publication is prepared for regional specialists in the Washington community by the Middle East - Africa Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Egypt

Economic Overview

Egypt's long-term economic prospects are looking up, but Cairo is plagued by economic difficulties, few of which will be ameliorated by the recent changes in government.

For a brief period after the war in October 1973, an improved financial situation permitted progress in selected areas. Infusions of cash aid from other Arab countries and a sharp upsurge in cotton prices permitted the government to replenish stockpiles of food and other essential commodities and to mount a reconstruction program in the Suez Canal area. A spurt in private investment in real estate and tourist facilities heightened economic activity in the major cities. Under a revitalized petroleum ministry, exploration and development expenditures mounted. Promises of other private investment appeared to augur a continuation of the postwar boom.

Since early 1974, Egypt's financial fortunes have deteriorated. The steep rise in import prices has substantially offset the increase in Arab aid. At the same time, recession and balance-of-payments problems in Western Europe have reduced demand for Egyptian goods and may well reduce Egypt's foreign exchange income by $400 million in 1975.

The financial picture has also been darkened by the death of King Faysal of Saudi Arabia, who provided Egypt with about $500 million in cash grants annually since 1972, frequently overruling skeptical subordinates. With an untested leadership now in control of Saudi Arabia, future levels of Arab aid to Egypt are uncertain.

Even if the financial situation improves, the following factors will hamper the growth rate for some time.

-- Congestion throughout the transportation and distribution system will limit the volume of producer and consumer goods available to Egypt's economy, which depends on imports.

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-- Failure to anticipate hydroelectric production problems at Aswan has begun to pinch power supplies and threatens shortages that could impede industrial output.

-- Lack of hotel capacity has dampened growth in the tourist industry, an important source of foreign exchange.

Progress also is apt to be slowed, as in the past, by bureaucratic ineptitude. President Sadat did not streamline government operations during the recent ministerial shakeup, but left 33 agencies with overlapping responsibilities in charge of state affairs. The caliber of the administration does not appear to have been much improved by the new appointees, so public management will still be inept.

Sadat will be hard-pressed to satisfy consumer demands for a higher standard of living. Recent minor improvements will be insufficient for those who remember higher levels of consumption prior to 1967 and who resent the living standards of the new elite--foreigners and a few Egyptian businessmen. A recurrence of strident consumer complaints may tempt Sadat to favor consumption over state investment.

If the Sadat government can placate consumers and at the same time avoid jeopardizing foreign investment, substantial relief ought to be available by 1977 or 1978. Reopening of the Suez Canal, completion of the first phase of the Sumed pipeline, construction of several new luxury hotels, and development of promising new oil and gas fields could redress unfavorable trade trends and reduce dependence on Arab grants.

Moreover, expansion of the port of Alexandria, scheduled for completion late in 1977, will eliminate the principal physical obstacle to the importation of goods. Improvements under way in the public production and distribution systems could also be completed. (CONFIDENTIAL)

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Egypt

Preparing the Canal

The Suez Canal authority in Egypt has arranged for the removal by mid-May of all but one of the 15 foreign merchant ships stranded in the canal since June 1967.

The 14 ships anchored in Lake Timsah and the Great Bitter Lake will be towed north to Port Said and turned over to their owners. A US freighter, sunk during the Middle East war of 1973, is beached in the Great Bitter Lake. The rest of the preparatory work for the reopening of the canal, set for June 5, appears to be on schedule. Additional British mine-clearing vessels arrived in Port Said on April 19 to make a final sweep of the canal.

Some Egyptian spokesmen contend that the canal will be able to take fully loaded ships at the pre-closure maximum of 50,000 deadweight tons. Others, however, hint that no loaded ships of more than 35,000 tons will be able to transit the waterway after it opens. (UNCLASSIFIED)

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Liberia

"Steve" Tolbert Dies In Plane Crash

Finance Minister Stephen Tolbert, President Tolbert's younger brother, was killed Monday in a domestic plane crash along with five other persons. Steve's death is a serious blow for the President who has been displaying growing anxiety over undercurrents of domestic opposition and Liberia's worsening economic situation. President Tolbert depended heavily on his brother for advice on a wide range of matters and used him as his chief negotiator in the government's current effort to revise to its advantage economic concession agreements with foreign companies.

In the long run, Steve's passing may ease some of the specific complaints being voiced against the Tolbert administration by students and other critics. Steve unscrupulously used his status and office to promote his personal business ventures and to ride roughshod over fellow cabinet ministers and other prominent Liberians. Steve's name had been publicly linked with several scandals in the past year, and his unsavory activities stood in clear contradiction to the reformist image that President Tolbert has tried to project since succeeding constitutionally to office in 1971 on the death of President Tubman. (CONFIDENTIAL)

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India

Gujarat Election an Important Test

The outcome of the election for the state legislature to be held in Gujarat in early June could have a major impact on the strategies India's political parties will pursue in the national elections due by the spring of 1976. If the numerous small opposition parties can implement tentative plans to limit the number of candidates they field in Gujarat, they will enhance their chances of winning, or at least of preventing Prime Minister Gandhi's Congress Party from obtaining another massive majority in the state legislature. Either outcome would encourage the opposition to cooperate on a similar basis in the coming national poll.

A poor opposition showing in Gujarat, on the other hand, would be a serious setback for the national anti-Congress movement led by J. P. Narayan. Narayan is unwilling to act as a campaign chairman in the state election because he does not want to get enmeshed in Gujarat's political infighting. Instead, he plans to spend the first half of May in South India trying to enlist support for his idealistic "total revolution" of Indian society.

Congress' preeminence on both the national and local levels since independence has been made possible in large part by the splitting of non-Congress votes among local, regional, and several narrowly focused national parties. In the last state election in Gujarat, which was held in 1972, Congress won 80 percent of the 168 seats in the legislature with 50 percent of the popular vote. No other single party was able to win even the necessary ten percent of the seats needed to qualify as a recognized opposition party. Nevertheless, the Congress government that was installed was brought

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down only two years later by a student-led revolt against high prices and the state administration's handling of food shortages. The central government has exercised direct control over the state since February, 1974.

Congress' image nationwide has been tarnished in the past year by continued economic mismanagement and by allegations of corruption. In Gujarat there is no popular Congress boss capable of restoring public confidence in the party. Chimanbhai Patel, who was chief minister of the state when the Congress government fell in 1974, was subsequently expelled from the party. Congress should benefit, however, from a relief program that is under way in parts of the state that have been severely affected by drought. Moreover, predictions of a good--and possibly a record--spring harvest in north India next month should relieve concern about food shortages in Gujarat, a state that does not grow enough to feed itself.

The main opposition to Mrs. Gandhi's party in Gujarat comes from center-right parties; the communists have never gained a secure foothold in this relatively prosperous and normally peaceful state. At this early stage in the campaign, the indications are that these opposition parties are having difficulty getting together on whose candidate should represent the proposed joint opposition in each constituency. The conservative Organization Congress, whicn split with Mrs. Gandi's ruling Congress Party in 1969, probably has the largest following among the opposition parties. As a result, the senior leader of the Organization Congress, Morarji Desai, opposes full participation in the single-candidate strategy, and says he is willing to support candidates from other parties only in special cases. Other Organization Congress leaders, however, appear ready to make concessions to obtain an alliance with former chief minister Patel. Patel now heads a new party that is gaining popularity with the landed gentry, which comprises

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20 percent of the state's population. For his part, Patel is acting like Desai; he has announced he will run candidates in most constituencies, withdrawing only where another opposition nominee appears a sure winner. Only the Hindu-chauvinist Jana Sangh Party has promised full support for the unity strategy and its pledge has aroused misgivings in the other parties; they are concerned that the highly organized and disciplined Jana Sangh might dominate any future opposition coalition government. The next several weeks will be filled with hard bargaining over candidate selection. (CONFIDENTIAL)

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Sri Lanka

May Day Precautions

Prime Minister Bandaranaike has placed security forces on alert and has ordered them to crack down hard on any group defying a ban on May Day demonstrations. She is aware that there is widespread popular discontent over food shortages and massive unemployment. More than anything, however, the ban reflects government concern that political strains within the ruling coalition could spark violent clashes.

Mrs. Bandaranaike has held power for five years as leader of a coalition of her moderate-leftist Sri Lanka Freedom Party and two small far-left parties--the Trotskyite Lanka Sama Samaja Party and the Communist Party/Moscow. Her party by itself controls a majority of parliamentary seats, but is badly divided between moderate and left-wing factions.

The Prime Minister is particularly worried that a violent confrontation could take place between members of the Trotskyite group and moderates of her party. Leaders of the two far-left parties have assured her that their personal activities will be restrained and that their followers will not cause trouble. Militant elements within these parties, however, may try to test the determination of the security forces, possibly with the tacit approval of party leaders.

In any event, the May Day activities of the two parties will aim at reminding the Prime Minister that their presence in the government forestalls major disruptions, especially by the powerful labor unions and student groups under their control. Additionally, leaders of the two parties, along with the left-wing faction of the Freedom Party, have recently registered concern that Mrs. Bandaranaike may be considering an alliance with the major right of center opposition party.

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The leftists have also been dismayed in recent months by the moderate economic policies the Prime Minister has adopted, despite her continuing espousal of Socialist goals. At the same time, she has resisted left-wing pressures for early nationalization of banks and textile mills and for imposition of controls over foreign-owned tea companies.

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